

Message Text

LIMITED OFFICIAL USE

PAGE 01 BONN 01072 01 OF 02 191755Z

ACTION EB-08

INFO OCT-01 EUR-12 EA-10 ISO-00 AID-05 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-06 CEA-01 L-03 DODE-00 PA-01 PRS-01 /097 W

-----061700 191810Z /46

R 191738Z JAN 78

FM AMEMBASSY BONN

TO SECSTATE WASHDC 4980

INFO AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION USBERLIN

USMISSION USNATO

AMCONSUL FRANKFURT

AMCONSUL MUNICH

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL HAMBURG

AMCONSUL STUTTGART

CINC USAFE RAMSTEIN

CINC USAREUR HEIDELBERG

CINC EUR VAIHINGEN

LIMITED OFFICIAL USE SECTION 01 OF 02 BONN 01072

USEEC, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: ECON MINISTRY OFFICIAL DEFENDS

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BONN 01072 01 OF 02 191755Z

PROGNOSIS FOR 1978

REF: (A) BONN 675, (B) BONN 671

1. SUMMARY -- KEY ECONOMICS MINISTRY OFFICIAL DEFENDS

3.5 PERCENT GNP GROWTH PROJECTION AS REALISTIC; SEES NO

ADVERSE IMPACT FROM DM APPRECIATION ON 1978 FRG EXPORTS.

END SUMMARY.

2. EMBOFF DISCUSSED ECONOMICS MINISTRY'S GROWTH PROJECTIONS FOR 1978 WITH KEY WORKING-LEVEL OFFICIAL INVOLVED IN THEIR PREPARATION. OUR SOURCE WAS ADAMANT IN HIS INSISTENCE THAT PROJECTIONS ARE "REALISTIC", NEITHER BIASED ON THE OPTIMISTIC OR PESSIMISTIC SIDE, DESPITE THE CAUTIONARY REMARKS WHICH ACCOMPANIED THEIR PRESENTATION (REFTEL A). TABLE BELOW REPRODUCES AND SUPPLEMENTS DATA SUBMITTED IN CONNECTION WITH ECON MIN FORECAST:

REAL PERCENTAGE INCREASE 1978/1977

PRIVATE CONSUMPTION	3
PUBLIC CONSUMPTION	3
FIXED ASSET INVESTMENT	5
PUBLIC INVESTMENT	(6.5)
BUSINESS INVESTMENT	(5.0)
RESIDENTIAL CONSTRUCTION	(4.5)
INVENTORY INCREASE	
(AS PCT. OF 1977 GNP)	0.5
EXPORTS	5 - 5.5
IMPORTS	6
GNP	3.5

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BONN 01072 01 OF 02 191755Z

3. ASSUMPTIONS OF FORECAST

PROGNOSIS ASSUMES THAT WORLD TRADE WILL EXPAND AT 5 TO 5.5 PERCENT RATE AND THAT GERMAN EXPORTS WILL KEEP PACE DESPITE REAL APPRECIATION OF MARK IN RECENT MONTHS. DM EXCHANGE RATE (TRADE WEIGHTED BASIS) ASSUMED TO REMAIN CONSTANT AT EARLY JANUARY LEVEL. NO ADDITIONAL FISCAL STIMULUS AND INTEREST RATES CONSTANT AT CURRENT LEVELS.

4. GNP

WHILE ACKNOWLEDGING ECONOMIC ACTIVITY WOULD HAVE TO ACCELERATE VERY SHARPLY IN 1978 TO ACHIEVE 3.5 PERCENT GNP GROWTH, OUR SOURCE FELT ASSURED BY A RECENT SURGE IN EXPORT ORDERS (PARTICULARLY FROM THE UK) AND BY ENCOURAGING INDICATORS OF INVESTOR ACTIVITY (ORDERS). GNP WOULD ALSO BE BUOYED BY SHARP INCREASE IN DISPOSABLE INCOME, PARTLY RESULTING FROM RECENT TAX CUTS. DEFERRAL OF INCREASE IN OLD AGE AND RETIREMENT BENEFITS AND DECREASE IN AMOUNTS TO BE RELEASED FROM STATUTORY SAVINGS WOULD HAVE SOME NEGATIVE IMPACT, MOSTLY IN

SECOND HALF OF YEAR.

SOURCE PREDICTED THAT GNP ON SEASONALLY AND WORKDAY
ADJUSTED BASIS WOULD EXPAND AT FAIRLY EVEN PACE

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BONN 01072 02 OF 02 191753Z
ACTION EB-08

INFO OCT-01 EUR-12 EA-10 ISO-00 AID-05 CIAE-00 COME-00
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-06 CEA-01 L-03 DODE-00 PA-01 PRS-01 /097 W
-----061688 191809Z /46

R 191738Z JAN 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 4981
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION USBERLIN
USMISSION USNATO
AMCONSUL FRANKFURT
AMCONSUL MUNICH
AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL HAMBURG
AMCONSUL STUTTGART
CINC USAFE RAMSTEIN
CINC USAREUR HEIDELBERG
CINC EUR VAIHINGEN

LIMITED OFFICIAL USE SECTION 02 OF 02 BONN 01072

THROUGHOUT YEAR, BUT THAT FIRST HALF WOULD BE SOMEWHAT
STRONGER THAN SECOND HALF (ON A NON-WORKDAY ADJUSTED
BASIS THE FASTER GROWTH IN THE FIRST HALF WOULD BE MORE
PRONOUNCED).

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BONN 01072 02 OF 02 191753Z

5. INCOME DISTRIBUTION AND SAVINGS

OUR INTERLOCUTOR FORESEES WAGE SETTLEMENTS AVERAGING FROM ABOUT 5.5 TO 6 PERCENT, I.E., APPROXIMATELY A PERCENTAGE POINT LOWER THAN IN 1977. WORKER PRODUCTIVITY IS EXPECTED TO INCREASE BY 4 PERCENT (3 1/2 PERCENT AFTER ADJUSTMENT FOR DECREASE IN WORKING HOURS). ENTREPRENEURIAL AND PROPERTY INCOME IS SEEN RISING BY ABOUT 10 PERCENT BEFORE TAXES AND 15 PERCENT AFTER TAXES. THIS CONTRASTS WITH THE ESTIMATED 2 1/2 PERCENT INCREASE IN BEFORE TAX AND 2 1/2 PERCENT FALL IN AFTER TAX INCOME FOR 1977. RISING PROFITS SHOULD HELP SPUR INVESTMENT. LARGER CORPORATE SAVINGS WILL EASE THE PRESSURE ON THE CAPITAL MARKET FROM LARGER GOVERNMENT BORROWINGS.

PERSONAL SAVINGS RATIO IS EXPECTED TO RISE FROM 13.5 PERCENT IN 1977 TO 14 PERCENT IN 1978, AS MEASURED BY STATISTICAL SERVICE. (BUNDESBANK METHOD OF MEASUREMENT SHOWS HIGHER SAVINGS RATIO.)

6. PRICES AND INFLATION

CPI FORECAST INCORPORATES 0.6 TO 0.7 PERCENTAGE POINTS AS PASS-ON FROM ONE PERCENTAGE POINT INCREASE IN VAT AS OF JANUARY 1. ON BASIS OF EARLY JANUARY INDICATIONS, ECON MINISTRY IS HOPEFUL THAT VAT PASS-ON IN 1978 WILL BE LESS THAN PREDICTED AND THAT CPI INCREASE CAN BE HELD BELOW 3.5 PERCENT.
STOESSEL

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 19 jan 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BONN01072
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780029-0159
Format: TEL
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780147/aaaabnco.tel
Line Count: 206
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: b6ef3be2-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 BONN 675, 78 BONN 671
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3750194
Secure: OPEN
Status: NATIVE
Subject: ECON MINISTRY OFFICIAL DEFENDS LIMITED OFFICIAL USE LIMITED OFFICIAL USE
TAGS: EFIN, ECON, GE
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/b6ef3be2-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014